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INDUSTRIAL REDEPLOYMENT BY THE NORTH AND DEVELOPMENT OF THE SOUTH *

by

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INTRODUCTION

The subject of industrial redeployment has in recent years received considerable attention in international economic analyses. UNIDO has recognized the importance of the subject and rather broadly defined its meaning. It would be useful however to consider the implications of this concept.

Two aspects seem to emerge. Industrial redeployment represents one of the forms of industrial policy that may be adopted by industrialized countries with a view to improving the medium- and long-term efficiency of their industrial apparatus. The objective of such policies is to organize the transfer of industrial workers towards sectors with a more promising future. Redeployment policies may therefore be distinguished from so-called structural adjustment policies, the less ambitious objective of which is to adapt the industrial structure to the new realities of international competition.

Industrial redeployment therefore has much wider implications, extending beyond national frontiers and directed towards a certain reorganization of the international industrial productive apparatus along the North-South axis. Industrial redeployment therefore links up with the development imperatives of the third world, as defined in international forums, and in particular with the objectives of the Lima Declaration.

The two meanings of redeployment therefore cover distinct realities, the first reflecting, within a developed country, the transfer of employment from one sector towards another, and the second concerned with a better balance in the shares of industrial production of the North and the South. But these distinct realities are connected by many ties of interdependence which may be illustrated by the following questions. To what extent does the development of industrialization in the third world impose certain redeployment requirements on developed economies? What effects will the industrial policies of developed countries have on the industrial development efforts of developing countries? What role is the third world left to play in the context of the industrial specializations emerging in the developed countries? How may the expected changes of industrial structure in the North be used to promote the development of the South?

1. MAJOR ECONOMIC FACTORS

In attempting to reply to these questions, it is necessary to bear in mind the international economic context within which they must be considered. This context is characterized by a number of basic facts.

1.1 Crisis since 1974

Since the beginning of the 1970s, the world economy, and in particular the developed world, have been in a state of crisis.

Although it may be somewhat risky to attempt to date the beginning of this crisis, the collapse on 15 August 1971 of the international monetary system established at Bretton Woods, as a result of the United States decision to devalue the dollar and to end its gold convertibility, may be considered the first alarm signals of the crisis, which is now recognized as such, and which has led to slower growth, persistent inflation and increasing unemployment.

1.2 Emergence of the Political and Economic Power of the Third World

The south, having largely completed its political liberation proclaimed at the Bandung Conference, is increasingly exercising its growing negotiating strength. From non-aligned summits to UNCTAD conferences, from UNIDO conferences to special sessions of the United Nations, international forums have provided the stage for voicing the specific aspirations and goals of the third world, which, following the dramatic decisions of OPEC in 1973, has been invited to the negotiations at the Paris Conference (Conference on International Economic Co-operation).

1.3 Competition of Third-World Industrial Products

"Challenge of the third world", "industrial threat", "cut-throat competition", "dumping", a whole range of expressions have been used to describe the entry of this newcomer into the arena of international trade. These expressions and the psychological shock which they reflect are more significant because of their underlying ideology than because of the potential industrial power represented by the exports of a limited number of products mainly from about a half dozen countries (Brazil, Hong Kong, Mexico, the Republic of Korea and Singapore). But beyond this growth in exports (and the protectionist measures taken by a number of developed countries) the whole industrial potential currently being built up in the countries of the third world is at issue.

1.4 The Increased Role of Transnational Corporations

Exploiting the comparative advantages of various countries, increasing their profits by numerous restrictive trade practices, the transnational corporations reflect the worldwide nature and the concentration of production in the international economy. Controlling internal exchanges (between two branches of a single company) estimated at 25 per cent of world trade, drawing an increasing profit from the cost of technology transfers (85 per cent of revenue from this source in the United States are accounted for by transnational corporations), they build up an economic power which ignores frontiers, and the decisions of which are imposed on States and endured by national economies.

2. INDUSTRIAL REDEPLOYMENT IN THE NORTH

Confronted with the economic crisis, and also, to a certain extent, with the competition of industrial exports from certain countries of the South, the North has developed a strategy involving industrial redeployment policies, in addition to aspects linked to currency, inflation and trade (protectionism).

2.1 Redeployment Strategies

Various strategies have been proposed in favour of industrial redeployment. Some have advocated the reconquest of the domestic market in order to reduce growing imports, even if that were accompanied by a pause in export promotion (see e.g. Bulletin mensuel de la S.P.G.F., February 1977)

Nicholas Kaldor, in the Guardian of 8 March, 1978, proposes that the world's highly industrialized countries should form a club in order to develop to the maximum the international specialization resulting from trade patterns. Within such a club, trade would be organized as follows. Each member country would commit itself to balance its exports of manufactured goods to other countries by imports of equivalent value from the group of other countries considered as a whole. Thus, within such a group "organized freedom" of trade would be ensured which would permit overall internal equilibrium.

The preferred strategy remains however that of industrial specialization.

2.2 Industrial Specialization

Industrial specialization is logically required in a country which, having opted for integration into the world market, will be provided with the framework within which it has the best chance to achieve a high level of growth by free trade.

Firms are thus led to adapt themselves to the constraints of international competition, withdrawing from activities in which world demand is declining and moving into those in which it is growing or which offer certain advantages. In other words, such a country would engage in a policy of industrial specialization enabling it to find its place - the best possible place - in the international division of labour, bringing its comparative advantages into play as far as possible.

However, even for its proponents, this liberal strategy has limits. Thus, one may read in the report of the "study group on the prospects for the trade balance of France during the next ten years" (February 1978):

"A theoretical vision of the conditions of international competition could make specialization appear to be the result of spontaneous trends in the international division of labour.

The spontaneous play of international markets in fact leads to the strengthening of the dominant positions of certain firms and to the accentuation of structural obsolescence observed in others. The strategy of holders of technological wealth or of dominant positions on their markets of origin or on international markets is to preserve these advantages and to prevent access to these markets by firms which for historical reasons are less well placed, but which have comparable potential."

Thus, not only will market forces be relied upon, but the State will also intervene, especially in these strategic sectors.

2.3 Redeployment Policies

In order to export and to reconquer internal markets, companies and the State are therefore led to apply a whole series of medium and long-term measures, such as:

- Rationalization investments which do not create employment but which improve productivity;
- "Cleaning out" the economy in order to eliminate industrial units which are not profitable enough;
- Concentration and mergers especially designed to promote economies of scale;
- Research on specific technological loopholes in the market;
- Moving certain activities to new locations.

Within this range of policies, the industrialized countries attach paramount importance to the capital goods sector and, more generally, to whatever makes possible the exploitation of highly skilled labour and the development of activities involving a high degree of research and development.

3. A NEW INTERNATIONAL DIVISION OF LABOUR

3.1 Role Assigned by Redeployment Policies in the North to Development in the South

To assess the role assigned to developing countries within the framework of the industrial strategies of developed countries, it is instructive to let the reports, studies and documents dealing with redeployment in the North speak for themselves. Thus one may read the following examples:

- In the report of the study group on the prospects for the trade balance of France during the next ten years (February 1978):

  "By manufacturing abroad, in particular in the developing countries, certain unsophisticated components of their products, national companies benefit by the advantages of productive factors in those countries, without however ceasing to retain on French soil the major part of the created value added. Such is the significance of the "advanced training establishments" that are becoming increasingly important in textiles and electronics".

- In an article by Anne-Marie Boyer in the periodical Usine Nouvelle (6 October 1977), entitled "African competition: how to prepare for it":

  "The development of African competition makes the transfer of large-scale production to countries where wages are low absolutely essential. This strategy of specialisation enables the industrialist to continue to manufacture "low-grade" products at competitive prices and to consider more sophisticated production in France; it has the advantage of maintaining employment in France and of increasing the productivity of the company."

- Likewise, in an article in Foreign Policy entitled "Technology exports can hurt us", the author of the article, Jack Baranson, after having defended the point of view that it is in the interest of United States industry to restrict the sale of proprietary technology, writes the following:

"In a changing world economy in which developing countries play an expanding role in producing manufactured goods, the United States will continue to shift to the capital-intensive range of manufacturing, relinquishing more labour-intensive segments of production to low-wage countries."

3.2 A New International Division of Labour

In fact, a new international division of labour is taking shape behind the industrial strategies and policies currently employed. Some of the trends may be noted

3.2.1 Comparative Advantages

The theory of comparative advantages is being strongly challenged. Competition having sharpened among developed countries as a result of the crisis, some of them (the Federal Republic of Germany and Japan) have made remarkable breakthroughs in international trade. The idea that free trade must be favourable to all countries without exception is being questioned. Indeed, the share in world trade increased from 26% to 42% for three countries (Federal Republic of Germany, Italy and Japan) between 1956 and 1976, whereas it fell from 44% to 26% for the United Kingdom and the United States.

Thus one may read the following in the above-mentioned Bulletin mensuel de la B.F.C.E:

"The deterioration in the terms of trade and the relative impoverishment of countries producing raw materials had already shown that the international division of labour did not operate equitably between partners of unequal power. But it is now being discovered that even among developed economies cases of domination arise through international trade. This is because there is no equivalence between the goods exchanged. On the contrary, there is a hierarchy at the summit of which producers of high-performance capital goods enjoy technical domination over their customers."

This trade inequality, which is reflected in the competition among industrialized countries, was ignored however in the above-mentioned passages on the role assigned to the third world by redeployment policies in the North. It is nevertheless recognized that free competition among countries with different economic potentials places the companies of poor countries in an inferior position.

3.3.2 The Role and Practices of Transnational Corporations

Trade therefore remains unequal, but within the framework of the traditional analysis in terms of sectors, factors and trade, the practices of transnational corporations have introduced an element of complexity which slightly obscures the picture.

These multinationals share out markets and distribute production among subsidiaries. They restructure the product range, have the possibility to restrict exports, use fictitious pricing between subsidiaries and collectively conclude agreements on matters ranging from market shares to abusive price-fixing. They are decision-centres which have considerable influence on competition, trade and the economies of the countries in which they are established, and these countries are unable to control the way they exercise their influence.

As a result, the internal organization of the economy of the transnational corporation is superimposed on the economy of the host country and its external relations. Of growing importance on the world economic stage, transnational corporations are increasingly leaving their mark on the international division of labour, of which they represent one of the basic elements.

3.2.3 Technology Retention

It may happen that a transnational corporation or a firm in a developed country refuses to transfer the technology for a specific product to a developing country. Industrial competition has indeed made such situations common.

[illegible] in the United States the idea that the transfer of certain technologies, even if desired by the firms owning them, may be harmful to the United States economy is becoming increasingly widespread. Thus, the above-mentioned article in Foreign Policy comments:

"This dissemination of technology to other economies and the adverse consequences that these transfers may have, have caused considerable concern in government circles."

And the article ends by presenting a number of "guidelines for change":

"The time has clearly come to reconsider national technology policies and their effect on the international operations of United States corporations."

Such a policy change is not, of course, aimed especially at developing countries, but rather concerns any potential partner of a United States firm. However, developing countries are more vulnerable than others to such a policy.

These assumptions, and the shape the international division of labour seems to be taking, are very disturbing.

3.2.4 The New International Division of Labour

Although trade remains unequal, it is still undergoing a fundamental change. In an article published in the magazine Etudes (August-September 1970), Bernard Esambo analysed this situation very clearly.

Under the influence of technical progress and the innovation which it keeps generating, investment is being transformed in two respects: it is becoming increasingly technological and increasingly internationalised.

The system of exchanging manufactured articles for raw materials is being gradually superseded by a system of exchange of technology for energy and manpower. A new international division of labour, different in nature and in scope, is replacing the old.

The word "division" is no longer appropriate. Hierarchy is replacing division. A small number of advanced countries will be responsible for innovation, conception, incentives, in short "intellectual work"; the other countries will apply this and execute the step-by-step operations leading to the final product. The location of firms performing the second type of task is of little importance, since technological control permits control of the productive cycle as a whole, regardless of its degree of fragmentation. That is why the "division of labour" today takes place within industrial branches rather than among them.

The new world hierarchy of labour modifies the movement of income and capital. The differences in labour

qualifications among developing and developed countries lead to increasing differences in the remuneration of labour. Capital, on the other hand, follows the path of exchange against technology and of the export of profits.

The conclusion is therefore clear. "Underdevelopment can no longer be seen as a preliminary stage to development." "Underdevelopment appears rather to be the reverse side of development, within the framework of which it logically belongs."

4. THE DEVELOPMENT OF THE THIRD WORLD

Slowly, it becomes clear which place has been assigned to Third World development in the redeployment strategies of the North. Mediocre technology, a small range of industrial branches, outdated products, sectors with low value added, abandoned in the specialization process of the North - these are some dominant characteristics of the type of industrialization which has been made available to the developing countries.

Redeployment by the North and North-South redeployment are connected: the second derives from the first and may be defined as a residue of opportunities available to the South after they have been disposed of by the North.

This development has its counterpart in several trends in the international economic evolution which become stronger as the outlines of a new international division of labour become clear - a division of labour which is absolutely new in its form, but unchanging in its nature, goals and results: the continued unequal exchange and the domination of the South. And one wonders if the North-South redeployment concept, which is the confirmation and materialization of an upsurge of Third World demands, has not been taken over by the dominant ideology to serve a new kind of unequal exchange.

Thus, the question which arises with regard to the Lima-Objective that the South should realise 25% of world industrial production by the year 2000 is possibly not so much one of the realisation or part-realisation of the objective, as one touching upon its substance: 25% should be realised, certainly, but of what kind of industrial production?

If the South refuses the type of development left over by the redeployment of the North, it will have to "choose" its own type of development, and North-South redeployment will then be a result of several choices and strategies.

The right way therefore seems to be one of autonomous growth, with a reasonably diversified national industry aiming at the quasi-total satisfaction of internal demand. Integration in the world market, however, will give the forces of domination a greater hold and will not lead to real growth.

It is interesting to note, at this point, that an analysis based on UNIDO world sector studies appears to show that Third World countries are more and more concentrating on basic industries and industries needed for integral development, such as those producing investment goods and those with great linkage effects.

To refuse a form of development which would be a residue of Northern redeployment does not mean that developing countries should ignore this redeployment. They must, on the contrary, use all opportunities available in the present situation which can be used for their own development strategy framework. This implies:

- A refusal to accept the illusions of adapted technology and a quick, large scale development of national engineering capacities;
- The processing of raw materials and the development of an industry adapted to the satisfaction of internal demand;
- Looking for opportunities furnished by the redeployment process in developed countries.

such as gaining access to certain technologies, which is facilitated by competition between firms, or the use of underemployed personnel of an enterprise in difficulties as instructors, etc.;

- The strengthening of Third World bargaining power in international organisations;
- Looking for possibilities to regroup regionally and to develop the co-operation between Third World countries, especially in the field of complex products demanding an advanced technology and highly qualified personnel, etc.

By doing this, by really developing, the Third World countries will really contribute to the realisation of new economic relations. Empirical studies have already proved that fears of greater unemployment in the North caused by the development of certain countries in the South are unfounded. On the contrary: the industrialisation of the Third World more and more appears to be a possible peacemaker for economies in crisis.

If one realises that unemployment in OECD-countries has reached a level of 15 million, if one thinks of the underutilised productive capacity in the developed countries, if one measures the productivity blocked in this way and compares it with the acute needs of Third World countries, one realises that a gigantic international co-operation programme, benefiting all, could be set up on this basis, and one realises for which reasons this programme is not even envisaged. But should profit and competition always prevail over the exigencies of equilibrium and the need to satisfy man's primary needs?